

Audit Committee Report

The Audit Committee (the “Committee”) consists of five non-executive Directors, four of whom are Independent Non-executive Directors (“INEDs”).

Members of the Audit Committee

INEDs

Mr. T. Brian Stevenson (chairman)

Professor Frederick Ma Si-hang (since 17 September 2013)

Mr. Alasdair George Morrison

Mr. Ng Leung-sing

Non-executive Director

Commissioner for Transport (Mrs. Ingrid Yeung Ho Poi-yan)

None of the Committee Members is a partner or former partner of KPMG, the Company’s External Auditor. The Finance Director (“FD”), the Head of Internal Audit and representatives of the External Auditor are expected to attend Meetings of the Committee. At the discretion of the Committee, others may also be invited to attend Meetings. The Committee meets regularly, and the External Auditor or the FD may request a Meeting if they consider it necessary.

Duties of Audit Committee

Under its Terms of Reference (available on the websites of the Company (www.mtr.com.hk) and the Stock Exchange), the duties of the Committee include the financial and efficiency aspects as described below. Amongst other things, the Committee is required to oversee the relationship with the External Auditor, to review the financial information of the Company, and to oversee the Company’s financial reporting system and internal control procedures.

The Committee discusses with the External Auditor the nature and scope of audit and reporting obligations before the audit commences. Apart from giving pre-approval of all audit services, the Committee also pre-approves any non-audit services and ensures that the External Auditor’s provision of non-audit services does not impair its independence or objectivity. The Committee is primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the External Auditor, and approving the remuneration and terms of such engagement.

With respect to the financial information of the Company, the Committee monitors the integrity of financial statements, annual and interim reports and accounts, together with

the preliminary announcement of results and other announcements regarding the Company’s financial information to be made public. In dealing with the financial information, the Committee liaises with the Board and the Executive Directorate (including the FD), and the chairman of the Committee further meets on an ad hoc basis with the Head of Internal Audit, representatives of the External Auditor, and Management. Apart from considering issues arising from the audit, the Committee discusses any matters that Head of Internal Audit or External Auditor may wish to raise either privately or together with executive Director(s) and any other person.

The Committee is required to review, at least annually, the effectiveness of the Company’s financial controls, internal control and risk management systems and to report to the Board that such a review has been carried out. These controls and systems allow the Board to monitor the Company’s overall financial position and to protect its assets. The Committee’s review for 2013 also covered its role in overseeing the Management’s review of the adequacy of resources, qualifications and experience of staff of the Company’s accounting and financial reporting function, and their training programmes and budget. Please refer to the section headed “Internal Controls” of the Corporate Governance Report on pages 112 to 115 of this Annual Report. The Committee reviews and approves the annual Internal Audit Plan which includes audits on the efficiency of chosen activities or operations of the Company. In addition, the Committee reviews periodic reports from the Head of Internal Audit and the follow-up of major action plans recommended, and puts forward recommendations to the Board where appropriate.

The chairman of the Committee summarises the activities of the Committee and highlights issues arising therefrom by a report to the Board after each Audit Committee Meeting.

The minutes of the Audit Committee Meetings are prepared by the secretary of the Meetings with details of the matters considered by the Committee Members and decisions reached, including any concerns raised by the Committee Members and dissenting views expressed. The draft minutes are circulated to the Committee Members for comments within a reasonable time after the Meeting. The approval procedure is that the Committee formally adopts the draft minutes at the subsequent Meeting. If Committee Members have any comment on the draft minutes, they will discuss at that Meeting, followed by a report on what has been agreed in the minutes of that Meeting. Minutes of the Committee Meetings are open for inspection by Committee Members at the Company’s registered office.

In January each year, the Secretary of the Meetings pre-agrees the Agenda Framework of the year with the chairman of the Committee who makes final determination on the agenda for the regular Committee Meetings. A total of four Meetings have been scheduled to be held in 2014.

Work Performed by Audit Committee in 2013

In 2013, the Committee held four Meetings. The attendance record of each Committee Member is shown on page 106 of this Annual Report under the Corporate Governance Report.

Among the four Meetings, the Committee had two separate Meetings for reviewing the annual results for the year ended 31 December 2012. The first Meeting concentrated on business operations, internal control and internal audit related items, as well as outstanding litigation, compliance and enterprise risk management issues, while the second Meeting focused on accounting and financial reporting matters.

The major work performed by the Committee in 2013 included:

Financial

- Review of and recommendation for the Board's approval of the draft 2012 Annual Report and Accounts and 2013 Interim Report and Accounts;
- Review of Management Letter, tax issues, compliance and salient features of 2012 Annual Accounts and 2013 Interim Accounts presented by KPMG, the External Auditor;
- Review of KPMG's Audit Plan and Preview of 2013 annual accounting and financial reporting issues; and
- Review of Treasury Strategy.

Auditing/Internal Controls

- Approval of the 2014 Internal Audit Plan;
- Review of two Half-yearly Reports prepared by the Internal Audit Department;
- Review of the Report on the Company's Internal Control system for the year ended 31 December 2012;
- Review of Reports on Whistle-blowing for 2012 and for January to June 2013;
- Review of the Report on Evaluation of Effectiveness of Internal Audit Department for 2012;
- Pre-approval of audit and non-audit services provided by KPMG;

- Review of KPMG's fees proposal for the 2013 audit; and
- Holding of private sessions with Head of Internal Audit and the External Auditor without the presence of Management.

Operations Review and Others

- Review of outstanding litigation, and compliance with statutes and regulations, Operating Agreement and Rail Merger Transaction Agreements;
- Review of the Enterprise Risk Management Annual Report for 2012;
- Review of an Update on the Management Governance Framework which is set out on page 115 of this Annual Report under the Corporate Governance Report;
- Confirmation of the financial figures for the 2012 payout under "2008 Variable Incentive Scheme"; and
- Review of the Audit/Governance Committees Minutes of MTR's wholly owned subsidiaries.

Representatives of the External Auditor, the FD and the Head of Internal Audit attended all those Meetings for reporting and answering questions about their work. Further to that and by invitation, the Deputy Chief Executive Officer, the Operations Director, the Commercial Director, the Projects Director, the Property Director and the Legal Director & Secretary (or their representatives) had respectively provided an overview of the Company's business development and expansion outside of Hong Kong, railway operations, non-fare businesses, new railway projects, property business as well as outstanding litigation, compliance and enterprise risk management matters to the Members at the Meetings.

Re-appointment of External Auditor

The Committee was satisfied with the External Auditor's work, its independence, and objectivity, and therefore recommended the re-appointment of KPMG (which has indicated its willingness to continue in office) as the Group's External Auditor for 2014 for Shareholders' approval at the 2014 Annual General Meeting.

T. Brian Stevenson
Audit Committee Chairman
Hong Kong, 11 March 2014